Center for American Progress Action Fund

April 15, 2013

The Honorable Diane Black
Chair
Education and Family Benefits
Tax Reform Working Group
United States House of Representatives
Washington, D.C. 20515

The Honorable Danny Davis
Vice Chair
Education and Family Benefits
Tax Reform Working Group
United States House of Representatives
Washington, D.C. 20515

Dear Representatives Black and Davis:

The Center for American Progress Action Fund is pleased to submit our comments in support of progressive, revenue-enhancing, and simplifying tax reform. We propose a federal tax reform plan that raises adequate revenue progressively while making the tax system more efficient, simple, fair, and comprehensible.

Our current tax system falls short in three key ways. First, federal revenue levels today are at their lowest level since the 1950s, and our tax system does not raise sufficient funds to pay for critical public investments or to protect our most vulnerable citizens. Second, our tax system has become less progressive over the past several decades, with the highest-income households enjoying substantial tax cuts even as their incomes rise. Third, our tax code is too complex and contains too many narrowly targeted special-interest breaks.

The Center for American Progress Action Fund recommends a tax reform plan that addresses these failings. Our plan redesigns the income tax code so that it will generate adequate levels of revenue to meet our crucial goals, raises this revenue in a progressive way by asking those in the top income brackets to pay more, simplifies the filing process, and streamlines the code. Specifically, we support the top marginal tax rate on personal income of 39.6 percent, a top marginal tax rate of 28 percent on capital gains as it was under President Ronald Reagan, converting tax deductions to tax credits, closing tax loopholes, simplifying the tax system by reducing the number of filers who itemize, and repealing the alternative minimum tax.

With regard to family benefits, the tax code currently provides significant support to working families through the Earned Income Tax Credit and the Child Tax Credit, which jointly lift more than 9 million families out of poverty, including more than 4 million children. These provisions should be maintained, but they can also be improved to reach out to other vulnerable groups—such as childless workers and the disabled. Expanded access to free or low-cost tax preparation services can help working families keep more of their refunds, instead of seeing their refunds eroded by fees. The tax code can also encourage working families to save a portion of their tax refunds for an emergency or for tomorrow's goals—ensuring financial security both for the present and the future. And to better meet the needs of caregivers and their families, credits for caregiving expenses should be available to workers even in cases where the relative does not live with and is not fully financially dependent on a single family member.

We offer the following specific recommendations to you as the chair and vice chair of the Education and Family Benefits Tax Reform Working Group:

- Preserve the expanded earned income tax credit: The earned income tax credit, or EITC, is considered the nation's most effective antipoverty program. The EITC lifted 6.1 million Americans above the poverty line in 2011, including more than 3 million children. Recovery Act provisions increased the size of the EITC for families with three or more children and lessened the "marriage penalty." These provisions, now extended through 2017, should be made permanent.

- Strengthen the EITC for childless workers, young workers who are not full-time students, and workers with disabilities: The credit currently provides little, if any, assistance to poorly compensated workers who are not caring for children. The maximum credit for a married couple without children is only $475—less than one-tenth of the credit for a couple with two children. The opportunity to get ahead should not be limited to parents. Substantially increasing this tax credit for workers without children and making it available to workers under age 24 who are not full-time students would reward work equitably. In addition, we should use the EITC to address high unemployment and hardship rates among people with disabilities. The United Kingdom's version of the EITC includes an enhanced credit for workers with disabilities, which helps offset some of the additional disability-related costs these workers face.

- Convert the child deduction into an expanded child tax credit: In place of the dependent exemption, which reduces taxable income by $3,800 per dependent, the child tax credit should be expanded to $1,600 per child for joint tax filers earning up to $200,000. Current policies ensuring that the child tax credit is refundable for families earning above $3,000 should be made permanent. For nonchild dependents, the exemption should be replaced with a nonrefundable $600 credit.

- Expand credits for dependent-care expenses to cases of multiple caregivers: Currently, one taxpayer may deduct caregiving expenses for a relative who lives in the same household and is fully financially dependent on him or her. This excludes a large number of caregiving relationships in which multiple relatives jointly care for an elderly or disabled relative. As part of the broader shift from deductions to credits, a credit for dependent-care expenses should have the potential to be split across multiple taxpayers who are not live-in relatives. This change reflects the nature of caregiving today and no longer penalizes families for sharing caregiving responsibilities.

- Reform the Saver's Credit to make it a more effective savings incentive: The Saver's Credit was intended to encourage savings by working families. But progress has been low because of its nonrefundability, very steep phase-down cliffs, and limited types of eligible savings vehicles. Three steps would make it a more effective savings incentive at a modest cost, which would increase the annual cost of the credit from $1 billion to approximately $3 billion to $4 billion out of more than $140 billion in tax expenditures for retirement savings. First, it should be made refundable so that more working families are able to claim it. Second, instead of refunding the credit to the taxpayer, it should be directly deposited it into the account so that it functions as a matching contribution, as was tested by pilots in cities across the country. And third, make it easy to contribute and consider expanding it beyond retirement accounts. Tax filers should also be able to open an account on the tax form, just as they can currently order savings bonds and split refunds into multiple accounts.

- Support free or low-cost tax preparation opportunities that ensure tax refund dollars ultimately go to taxpayers, not intermediaries: Of the $49 billion in earned income tax credits in 2008, more than $1.5 billion went toward refund-anticipation and tax-preparation fees, including nearly $1 billion for tax-prep fees alone. Overall, $300 or more of the tax refund could go to tax prep and refund anticipation fees. For tax incentives to truly succeed in supporting family well-being, Congress should support the Volunteer Income Tax Assistance, or VITA, program and other free or low-cost tax prep opportunities. VITAs help consumers keep their maximum refund—dollars that can then be saved or spent.

Any plan for balanced and realistic deficit reduction must include progressive tax reform. We urge the committee to embrace a tax reform plan that asks those who can most afford it to bear their fair share of the burden while protecting seniors, the middle class, and those striving to get into the middle class.

The Center for American Progress Action Fund thanks you for your consideration of our views on tax reform. We welcome the opportunity to provide additional information or to discuss our recommendations in greater detail.

Sincerely,

Joe Valenti
Director of Asset Building
Center for American Progress Action Fund